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SUBJECT: MAGNITOGORSK STEEL'S IRAN AGENT COMMENTS ON
IRANIAN STEEL SECTOR

Classified By: POLECON ROB GARVERICK, FOR REASONS 1.4 (A) AND (B)

Summary

1. (S) The Iran Agent for Russia's largest steel company MMK discussed the Iranian steel industry and related issues with Baku Iran watcher. He described the extent and mechanics of MMK's Iranian steel operations, and the expansion of privately versus state-owned steel manufacturing activities in Iran. While claiming that Iran is progressing rapidly toward self-sufficiency in certain types of steel, he claimed that lack of scrap metals and needs for specialty steels mean that Iran will continue to import certain kinds of steel. He described developing Iranian steel export activities, including planned new ventures, including joint ventures with MMK and an Indian company, that might further bolster this effort. He also noted that privatization of government-owned Iranian steel plants appears to be moving slowly, with buy opportunities effectively limited to Iranian investors. The Agent also commented briefly on Iranian overseas banking activities, aspects of doing business in Iran, and MMK's steel exports to Afghanistan. End Summary.

Man of Steel

2. (S) Baku Iran Watcher met in Baku with the Teheran-based Middle East Agent for Magnitogorsk Iron and Steel Works (MMK), Russia's largest steel producer. The Agent (strictly protect), an Azerbaijani national, has been MMK's Iran Agent since 2000. He has an Iranian residency permit, and operates through an Iranian front company that he established and registered in Teheran. In addition to detailed knowledge of MMK's exports and business relationships in the region, the Agent also possesses broad expertise on the overall state of Iran's steel sector and related information.

MMK's Iranian Business

3. (S) According to the Agent, MMK exported approximately one million tons of steel to Iran in both 2007 and 2008, and has a 2009 export target (which he said it may not make) of 1.2 million tons. MMK Iranian contract terms require 40 percent advance payment, with the balance paid once the shipment reaches an Iranian port. He explained that MMK's

Iranian exports include a wide variety of steel types, including (among others) specialty steels, tinplate, cold and hot rolled steel, billets, steel tubes, and stainless steel. He said that most of the steel is transported by rail from Magnitogorsk to the Russian Volga port of Astrakhan, and from there by low draft ship (no more than 5,000 tons) to Iranian ports on the South Caspian.

Anzali Port Preferred to Neka

14. (S) He said that due to berth restrictions at Astrakhan for non-Russian ships, most of the steel is shipped on Russian bottoms, though sometimes Iranian cargo ships from an IRISL subsidiary are used. According to the Agent, despite Iranian government efforts to build up the port of Neka, most of MMK's exports, as well as much other trans-Caspian cargo, is still being unloaded at Anzali. He asserted that unloading and storage facilities at Anzali are superior to Neka, and follow-on trans-Iran transport costs significantly cheaper.

Iranian Steel Production Expanding...

15. (S) The Agent estimated annual Iranian demand for steel of all types at between 16-18 million tons, of which approximately 10-11 million tons is domestically produced (Note and Comment: Recent Iranian press reports claim that domestic steel production has already reached 15 million

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tons. This figure is almost double 2004 domestic production, and seems very unlikely. End Note and Comment). The Agent said that approximately sixty percent of the domestically-produced steel is at "European standard," with about forty percent below this standard. He noted that due to generous government tax incentives, preferred financing access, and perceived future profitability, Iranian domestic steel production capacity is rapidly expanding. He opined that Iran may be theoretically self-sufficient in many kinds of steel by 2015, even though (he claimed) from an overall economic point of view it would probably be cheaper to continue imports.

16. (S) The Agent said that privately-owned steel production facilities in Iran are increasing, as steel (along with gold, telecommunications, and energy) is seen as a profitable growth industry. He noted that most of the Iranian steel mills are private rather than government-owned. "Only three or four are still (wholly) government owned," he said, but added that many of the private owners have insider connections.

17. (S) While noting that the large Isfahan mill/steel company has been slated for some time for privatization, he claimed that this process has not been completed. According to the Agent, MMK Chairman Victor Rashnikov visited the mill in 2008 and, with some company management encouragement, seriously considered taking a twenty percent interest in the venture. The Agent said that MMK recently concluded that, while apparently legal in theory, in practice the Iranian government would not allow any significant foreign ownership share in the mill. At least in steel, "privatization is for Iranians only," he concluded. He added that the Isfahan and Mobarak plants currently export billet and other forms of steel to buyers in Italy (Danieli), Iraq, and elsewhere in Europe and the iddle East.

But Steel Import Needs Continue

18. (S) Despite thi expansion in self-sufficiency, which he attributed partly to an Iranian response to Western sancions, he thought that Iran would continue to lackthe capability to produce certain types of specialty steel, and

would need to continue to import these types of steel and scrap metal (which Iran also substantially lacks) even after ¶2015. According to the Agent, plans for an MMK-Iranian joint venture are already underway to build a major steel facility to meet much of this demand on forty hectares of land near the Russian South Volga port of Astrakhan. He added that expanding overseas exports is a major goal of the Iranian government and producers, and a significant factor in expansion of domestic steel production. Noting that some segments in the Iranian steel market are currently glutted, he said that Iranian steel traders/speculators also sometimes divert certain types of stockpiled steel into export markets if domestic steel prices fall.

2006 Import Spike Suggests Underground Construction

¶9. (S) The Agent described Iranian steel demand, as compared to other markets, as unusually high for reinforced steel, which he attributed to the need to earthquake-proof much of Iranian construction. However he claimed that in 2006 there was a surprising spike of Iranian imports of two million tons of specialty I-beams. He speculated that much of it may have been used for constructing underground structures. According to the agent, this particular type of steel I-beam was provided to Iran by Spanish and/or Ukrainian companies.

Doing Business in Iran

¶10. (S) The Agent has been working in Teheran for eight years - representing MMK is his main, but not only, business there. He described working conditions for a foreign

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entrepreneur as reasonable, but complained that government bureaucratic hassling of international business has noticeably increased over the last two years. According to the Agent, he pays the Iranian government 25 percent of his net profit as taxes, and is audited by tax authorities annually. He said that doing business in Iran with government officials of all types often includes presentation of expensive gifts, often given under the cover of the Norooz (Iranian new year) holiday. The Agent said that cars and bags of gold coins are especially appreciated new year's "gifts" for key contacts and officials, while others might receive just a few gold coins or other items.

Iranian Funds Overseas

¶11. (S) According to the Agent, Iranian individuals and entities have huge sums in banks overseas which they use for foreign expenses. Most cash paid for Iranian exports goes directly into such accounts, he claimed. As an example, he said he is assisting one wealthy Iranian steel producer in a negotiation to pay 150 million Euros for a 51 percent interest in a small privately held Azerbaijani bank, the Royal Bank of Baku. Although the deal has not yet been closed, he claimed that funds would probably be moved from banks in Dubai to an account in a German bank to facilitate this purchase. He added that the (unnamed) German bank is also acting in a consultative capacity on this notional deal, and is apparently advising against it on commercial grounds.

Afghan Business

¶12. (S) In addition to its Iranian business, the Agent noted that MMK also exports over three hundred thousand tons of steel annually to Afghanistan, much of it through Iran, via Turkmenistan and Mashad. He said that MMK's contract terms for Afghan sales require 100 percent cash payment in advance.
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